SUMMARY

In the opinion of Dr. Carlo Rodanò, author of the article « The Economic Future of Europe and the ERP », Europe is experiencing her current difficulties chiefly because she has forfeited the economic, political, and scientific-technological supremacy, that she had over the other Continents prior to 1914, a supremacy which has now passed over to the United States. Two World Wars have accelerated and made more apparent this process which, however, had already started before them. The present European situation is compared to that of large cities that were once capitals and are now obliged to direct their activities to industrially different lines to those they were accustomed to. This, i.e., was the case for Vienna after the fall of the Hapsburgs and for Naples after her annexation to the Kingdom of Italy.

The loss of supremacy has been aggravated in the case of Europe by the economic nationalism and the protectionist policies of extra-European countries; but further and yet more dangerous factors will arise in the future as a result of the policy of full employment. Therefore, the author considers with some pessimism the future, and ignores the efforts now being made to find a remedy for the situation along lines of a <<common sense>> policy (increase of European exports to the United States, integration of European markets, etc.). Undoubtedly the present inferiority of Europe could be attenuated by a Customs’ Union; but the problem has to be faced very cautiously, especially in the case of the so-called <<depressed areas>> of the Continent, so as to avoid creating situations similar to that of Southern Italy.

Referring to the Marshall Plan, the author notes that it is not without advantages for the United States as it helps them to secure a balance between production and consumption. The United States are beginning to face a problem foreseen by Sismondi in its most extreme forms, the problem of selling goods intended for mass consumption but produced by automatic machinery, which does not require labour and therefore does not employ the masses with the necessary purchasing power to pay for it. In theory this problem could be solved if the management of production were placed in the hands of men actuated by philanthropic motives and not by those of profit. During two centuries the purchasing power of the masses has steadily risen as result of the rising wages which they have wrung from the entrepreneurs, and consequently the problem referred to has been of practical importance. But, for some time in the United States a change has been coming over the situation as a result of technological progress which has allowed of a rapid increase in labor efficiency. By the free gift of part of their wealth to Europe, the United States, perhaps without fully realising it, have started along the road that may lead to the right solution of this problem. Nevertheless, many Americans are not convinced that it is to their advantage to continue giving ERP help to Europe; in Europe, on the other hand, for reasons that the author examines, difficulties stand in the way of the full utilisation of this help.

Europe might increase her production to a marked extent if she were to give up some traditional ideas to which she is obstinately attached. But she will continue, to remain in a condition of instability if she goes on expecting her problems to be solved by some Deus ex machina such as American intervention.

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In his paper « A Public Expenditure, Savings and Foreign Loans in the Development of Southern Italy », Prof. Pasquale Saraceno of the Catholic University of Milan, examines the effects on income, consumption, imports and fiscal balance of an additional public investment expenditure aimed at raising the economic level of a depressed area. Although this problem is set in general terms, the study refers to the economic depression in Southern Italy, a problem to which the author has been devoting his attention for a number of years.
The paper points out the difference between such a policy of public expenditure and the anti-cycle policy to which up-to-date economic thought usually refers to. The difference lies mainly in the following points: availability of productive factors not matched by an availability of monetary savings; a longer duration of the required State action and the low profitability of public investments.

Notwithstanding this special situation an anti-depression policy may be carried out successfully, particularly if we keep in mind the experience of the war economy.

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In his study on « Italian Joint Stock Companies from 1938 to 1948 » Prof. Francesco Coppola, D'Anna describes: (1) the characteristics and causes of the reduction in the number of joint stock companies over the period considered; (2) the variations in their distribution among the economic groups and over the different regions, both as regards number and capital; (3) the global movement of share capital. It is with this last aspect that the author deals at greatest length, completing the data on nominal capital by an interesting enquiry into its consistency reckoned in « adjusted » lire. The author however is careful to qualify the significance of the results thus reached — which at first sight seem reassuring — by calling attention to losses due to war damages and insufficient upkeep of plant. The great differences between the values as expressed in nominal capital, in « adjusted » lire, and in the stock-exchange quotations revised in different ways, make the identification of the real value of the capital of the share companies very problematic. The author does not gloss over this fact, but emphasises the doubtful character of such calculations; nevertheless, while he recognises the impossibility of ascertaining the actual loss that may have been suffered, and therefore of ascertaining the degree in which the prices now quoted on the stock-exchanges correspond to the real capital value of the investments, the author, looking forward to a growing flow of savings and to higher share dividends, considers that Italian share purchases are likely to rise. (For figures on capital, share prices and yields of the main Italian Companies quoted on Stock Exchanges see Statistical Appendix, Table 2).

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Prof. Mario Imperatori in his article on « The Construction of Wholesale Price Index Numbers and Wholesale Price Trend in Italy, May 1946-July 1949 », analyses the principles used by the Italian Central Institute of Statistics in making the returns and the calculations for compiling the wholesale price index numbers. The enquiry reviews the experience acquired in this matter since 1948-49, and pays particular attention to the difficulties met with and to the expedients adopted to render the new post-war series as uniform as possible with the pre-war series.

The part of the article, dealing with the trend of Italian wholesale prices from May 1946 to July 1949, calls attention to the sometimes parallel, sometimes contrasting features of the price movements, and underlines the progressive attenuation of the phenomenon of price dispersion, which has become more and more apparent in the first half of this year.


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The Economic Future of Europe and the ERP

by

CARLO RODANO

1. — When the Western powers first started to consider the problem of economic recovery after the war, they were filled with optimism. It was then believed that the Bretton Woods agreements and a few dollar loans would be sufficient not only to re-establish the equilibrium of balances of payments in the various countries, but also to ensure prosperity to the whole world, without economic crises or serious social conflicts. The fact that it was then thought possible to maintain indefinitely the free convertibility of the pound sterling shows the extent of this optimism. In actual fact convertibility had to be abandoned after a few weeks and the difficulties pertaining to recovery revealed themselves as formidable. Needless to say, the situation would have been still more critical had it not been for UNRRA, USA and the other measures which had meanwhile been applied. Necessarily, it was possible to continue along the same lines and so the Marshall Plan came into being. But the ERP, too, is meeting with difficulties and the world is still far from having regained its equilibrium.

Neo-classical economists have a very simple explanation for all this. In their opinion, things are going badly because the world has chosen to ignore the teachings of Adam Smith and Ricardo, which have been further elaborated by four generations of admirers, had reached perfection. But Smith and Ricardo based their theories on certain assumptions which were only partly true in their time and which, as the world we are living in now, are not valid at all. Some of the neo-classical-economies valise this and, with undeniable logic, advice us — in substance — to change the world and adapt it to their theories. But statesmen and all those having practical minds obstinately refuse to do this and continue to base their economic policies on the world as it actually is.

In acting thus, they would have brought us much nearer to a solution of our problems if a majority had not made the mistake of attributing all the difficulties and the lack of balance they are trying to overcome to the two world wars, almost completely neglecting the essential cause. I refer to the growth of the United States and the fact that this gigantic power is now able to practically outvie all other countries on international markets. The United States has taken over Europe's financial and political hegemony, and, of late, also that supremacy in the sphere of technical and scientific progress without which it is not possible to remain for long in the vanguard as an industrial country.

This is a phenomenon which has many precedents in history and which has always caused serious difficulties. The expansion of Portugal's overseas trade in the sixteenth century and of Great Britain's trade two centuries later had their counterpart in the decadence of Venice in the first case and of Low Countries in the second. The experience of Germany prior to 1914 shows that the entrance of a new large industrial country into the sphere of international trade is no easier now than it was then — nor does it give rise to less serious conflicts. In 1914 the United States already accounted for more than one third of the world's industrial output; consequently it was already well on its way to becoming a gigantic power. Without the war, however, it might have taken half a century to reach the position it found itself in only four years later, in 1918. The truth is that the two world wars have merely speeded things up, conferring a dramatic aspect on them and turning Europe's gradual decadence into a crashing downfall.
Fortunately certain fundamental features of the economic development of the U.S.A. carry within themselves the remedy for some of the most serious harms caused to other countries.

In fact, while the world needs American help, it is in the interest of the U.S.A., for a number of reasons, to grant this help. Public opinion, however, dominated as it is by tradition in all countries, does not hold these conflicting interests to be stable, for they are something quite new to which it is not accustomed. On the other hand, it is acutely conscious of the points at which these interests diverge. For this reason many Americans are still wondering why they should help Europe with the Marshall Plan or in any other way, while in Europe there is a lot of talk about earning dollars with which to pay for the goods we need rather than accepting them as gifts. There have been apparently paradoxical cases of masked refusal of aid.

I

1. — Once the Industrial Revolution had started, Europe developed along lines so singular that only habit could make them appear natural, namely as an industrial region importing the foodstuffs and raw materials it needed from all the other countries in the world and paying for them with its products. The population of Europe increased steadily, while elsewhere (with the exception of parts of southern and eastern Asia) it remained low.

In the twentieth century the situation changed: almost all the non-European countries developed industries of their own and tried to shut out European goods. However, as long as there was no other great financial power for them to turn to, they were unable to avoid paying interest and dividends on European capital and, consequently, sending supplies to Europe. They knew only too well that, if they failed to do so, the depression would have been a refusal to grant new loans. But during the last decades this too has come to an end: Europe’s foreign investments have been repaid, and the Continent has been suddenly faced by the problem of obtaining supplies without foreign balances with which to pay for them or markets where it can obtain foreign currencies in exchange for its products.

The difficulties encountered by Europe in international markets are due mainly to the fact that exports in the twentieth century — as we shall see later — underwent a radical change as compared with the nineteenth century. A secondary, but far from negligible reason is that with the passing of world hegemony to the U.S.A., the causes ceased to exist which formerly induced well-to-do consumers to purchase European luxury goods, no matter how high the tariff barriers were with which their countries endeavoured to check such imports. For many years, in fact, the upper classes in all countries were guided by London and Paris dress styles, ways of living and thinking. But it is a sign of the times that the big Parisian dressmakers have recently had to alter their models to comply with the taste of American women — such a thing would have been unheard of in the nineteenth century!

2. — Situations similar to that of Europe at the present moment have occurred several times in the past; but the most interesting precedents are probably those of Austria and Czechoslovakia after 1918 and that of Naples after 1866. The two former countries had lost the prominent position that their industries, trade and finance had enjoyed in the markets of the former Austro-Hungarian Empire; Austria, in addition, had lost the sources that had supplied Vienna, as a capital, with her income; the losses of Naples were almost exclusively of the latter nature. A fact that deserves to be considered is that only Czechoslovakia succeeded in saving itself economically. It is interesting to observe that whereas the decline of Austria may be attributed to the tariff barriers raised against her by her former markets, this explanation does not fit the case of Naples which, on the contrary, was united to other larger and richer Italian markets. The latter solution however is now recommended as a remedy for the difficulties being faced by the countries of Europe.

Europe’s present problem is the same as that of Austria and Naples, namely, either to find abroad new sources of income not inferior to those that have been lost, or to send part of the population to other countries or to be content with what can be supplied locally. As for the third solution, two alternatives are open — either to exploit local resources (this means an economic policy aiming at self-sufficiency) or to reconcile oneself to a heavy and lasting fall in the standard of living.

3. — Let us now examine the new features characterising international trade in the twentieth century, particularly of late years. The reason why Europe’s former export markets turned towards the USA and undertook a process of industrialisation, was that their entrepreneurs wished to buy from European suppliers. Little by little, however, the individual desire to grow rich mingled with the general desire to provide employment for the national labour force. Now, in the new conditions, all government programmes aim at full employment and no country concerns itself with the damage that may come to other countries from the steps it takes to reduce unemployment.

Everybody sees this quite clearly now, but very few have the courage to make allowance for this fact when considering the economic future of the world. An unbiased study of the situation can only lead to the conclusion that the policy of full employment is bound to result in the complete abandonment of the economic principles followed prior to 1914. Yet these principles are the only ones known to private persons in the conduct of their business.

In Italy we are able to examine the effects of this new policy as regards the ban on dispossessions in the industrial sector. The principle of sound administration (as it was called) used to be not to accept orders unless the price covered the actual cost. This system led, in practice, to the automatic elimination of factories whose costs were too high to be competitive. Once it has been established that no employee may be dismissed, the principle must be altered; all orders have to be accepted to help pay the wage-bill. Thus producers are driven to selling part of their output below cost.

With a system of private enterprise without State intervention, the selling of goods below cost would obviously be limited by the financial possibilities of the producers. Once their funds came to an end, they would have to close down or at least return to the old principle of not working at a loss.

In the case of whole nations, however, and not private enterprises, selling below cost can continue practically indefinitely, since a nation will never run completely out of resources. Consequently, the principle of full employment justifies not only protectionism, but also dumping and free grants of the Lend-Lease or ERP type.

4. — We ought to consider the same facts from another point of view. In a world intent on attaining full employment, there is no sense in speaking of reducing costs in order to get the better of competition on international markets. It is true that a reduction of costs would make it possible to offer lower prices without any need for an increase in State subsidies, but these offers would not be accepted.

In the world we are now living in, no country is willing to buy abroad what can be supplied by its own manpower, since the price paid for imports has to be added to the expenses necessary to ensure full employment. The only advantage — if it may be so termed — would be that a part of the local labour would be employed for useless work.

From force of habit we are inclined to entertain the idea of lowering the standard of living of the working classes in order once more to be able to compete on foreign markets and get foreign currency to pay for our imports. This, for instance, was the practical advice offered to France by Paul Reynaud, a statesman who is well-known as an expert in economic matters. It is, in fact, excellent advice for the world that M. Reynaud still thinks he is living in. In our present world, however, it would merely complicate an already difficult social situation, since the only practical results, were France to lower her prices, would be new restrictions regarding imports and other protectionist measures aiming at preventing France from expanding her exports.
6. — In countries where are large masses of would-be workers without employment the policy of full employment should be achieved mainly by finding employment for such workers. In more highly industrialised countries, however, it is part of another and more extensive programme: that of achieving economic stability, which means not only stability of employment but also of incomes. Ever since 1930 this has led countries to look on exports more and more as a means of getting rid of production which is not needed at home. It has become a problem of national policy, its object being to provide work for certain categories, thus preventing them from putting pressure on others. This is a radical innovation compared with nineteenth century ideas, and its effects are only just becoming apparent. They are very far-reaching.

In fact, if evolution continues along these lines, ‘each national market will become a sort of reservoir, the contents of which are kept at a constant level.’ But in order to maintain this constant level, there must necessarily be large fluctuations in the quantity of water discharged into the ditch below.

Once these conditions predominate, international markets can no longer hope to have regular customers and in order to place goods it will become necessary to sell them at very low prices or actually give them away. The only exception would be those few basic products for which potential overproduction is impossible. With this sole exception, exports would lose their importance as a source for financing imports. Any country that continued to depend on international markets would therefore find itself in a precarious situation. Further, it would be liable to suffer the effects of depressions in other countries, as was the case in 1930-34.

Sir William Beveridge writes that every country must aim at achieving full employment within its borders, without counting on exports as a means for attaining this end, since in so doing it would merely be exporting unemployment. But his advice is not likely to be followed. As long as there is manpower idle, all countries will have recourse to dumping in an attempt to achieve economic stability for themselves. Obviously, it is always better to employ manpower on some not completely useless job, rather than pay the workers to be idle. Under these conditions, even the countries where wages are highest will be able to use the number of workers to produce goods to be sold in competition with goods that were in the past.

7. — All the foregoing should be considered in connection with the particularly dangerous situation of countries having a large domestic market. Even if Italy, France and Great Britain reserve the whole of their domestic markets for their own industries, they have only 40 to 50 million potential consumers as compared with 150 million in the U.S.A., with a much higher purchasing power. Consequently, in the case of goods having a decreasing production cost — most industrial products are under this heading — manufacturers are able to reach very much lower costs.

The size of the home market becomes a really decisive factor when recourse is had to dumping. The larger this market is the lower is the percentage by which the price has to be increased on the domestic market to met dumping expenses. Costs and sales prices being equal, if the domestic market in country A absorbs twice as much of a given product as country B, the former will be able to offer twice the rebate offered by B for sales abroad.

More or less the same thing happens when dumping is effected not by the producer but by the State, which offers export bounties or subsidies. It is obvious that the richer country, if it so wishes, can easily get the better of the poor country.

8. — Owing to the fact that supplies on international markets undergo sudden, large-scale changes, and that prices vary equally, production costs suddenly, production costs for small and medium-size countries will vary far more that in large countries. Normally, the former have only a restricted assortment of products and are compelled to purchase far more supplies abroad. Consequently their industrial enterprises will end by assuming that speculative nature which was to be observed in all countries at the end of the world war. This make financing difficult, except during spells when circumstances are favorable (and even this only applies to the more naive type of investor). The difficulty in obtaining funds compels firms to forego improving their equipment; they are thus unable to keep pace with technical progress and to reduce costs. On the other hand, the instability of costs sooner or later affects sales prices unfavourably.

These causes of inferiority, added to those which result from restricted markets, would end by limiting the industrial activity of small and medium-size countries. And all the countries of Europe come under this heading.

III

9. — The United States differs from all other countries inasmuch as it has never suffered from this excess of manpower which is a normal condition in Europe and Asia and was therefore able to apply labour-saving machinery far more extensively than other countries. After the first world war, the process of substituting machines for men made it possible for the Americans to do without foreign workers, although production continued to increase at a far greater speed than did the population. The closing of the U.S.A. to immigrants marked a turning point, the full importance of which is only now beginning to be realised. For the sake of U.S.A. production decreasing costs in terms of human labour: obtain. This means that it is possible to increase production not only without increasing the number of workers, but also leaving them more time for rest and amusement.

In a society, however, where the work is done by wage-earners, mechanisation spells unemployment, and in a modern society of the Western type, where these wage-earners are of great importance also as buyers on the commodity markets, unemployment inevitably leads to a drop in the production of such commodities as well as to a reduction — if not complete absence — of profits for manufacturers. There results a reluctance to invest in new equipment which, in turn, lowers the output of capital goods. In short, a reduction in the demand for labour is followed by depression. If manufacturers carry matters to their logical extremum, the depression becomes permanent and economic development comes to a standstill.

So far, however, the United States has succeeded in avoiding this extreme, thanks to the limited availability of manpower which first made it concentrate on machinery. As the result of rising wages and shorter working hours, the increase in productive capacity has been followed by an increase in mass consumption, which has re-established equilibrium. The country has been through crises — even very serious ones — but manufacturers did not permanently refrain from installing new plant for fear of never being able to sell their output, as has been the case in Europe. This is another of the important characteristics that distinguish the U.S.A. from the rest of the world. They have indeed been lucky enough to discover the formula for developing production and consumption at the same rate, which is essential in order to keep the mechanism of a modern country going.

Together with these two factors, very strict protection of the domestic market has placed the U.S.A. in the place it now occupies in the world. It has always been protectionist. In three months of the twentieth century Great Britain became the champion of free trade and all the countries of Europe lowered their tariffs, it seemed for some thirty years as if protection was about to disappear. In the U.S.A., however, it was not shaken in the least and this too is accounted for by local conditions. The British industrialists and workers embraced free trade because they knew that the abolition of customs barriers would ensure food at lower prices. The Americans could not hope for any such advantage, since they were at the source that supplied Europe. British unemployment could emigrate and make a fortune for themselves. Americans could never hope to do this, since the highest wages and the best opportunities were to be found in their own country.

By closing its domestic market, the U.S.A. succeeded in improving the standard of living of its people without waiting for the rest of the world to do the same. The poor countries were unable to disturb this process by sending over their goods or their workers.
10. — The series of facts mentioned in the first part of paragraph 9, technological unemployment, sales difficulties for consumer goods, etc. — has so far been studied by economists almost exclusively with reference to the theory of economic crises which, in reality, can be explained in many other ways. On the other hand, sufficient importance has not been attached to the fact that the aforesaid series of events may bring economic development to a permanent standstill.

Here we come to an old problem strictly connected with the expansion of mechanisation, namely: how to sell the increased output if the machines, by raising labour efficiency and to a great extent eliminating human labour, exclude from the market an increasing number of potential consumers? This problem has been apparent from the very beginning of the Industrial Revolution and if the classical economists have ended by considering it with optimism, it is only because, in capitalist societies, the employment of manpower has been increasing at the same pace as the efficiency.

But let us stop to consider the case suggested by Simondi, a king of England who had all the work formerly entrusted to his subjects done by machines. In this case the working classes would have no incomes and would not be able to buy anything. Supposing the king were a philanthropist, he would have all the products that he did not need himself distributed free of charge to his subjects, in which case they would benefit from the replacing of human labour by machines. As a philanthropist, he would be anxious for new automatic factories to be opened continually. But capitalist entrepreneurs having only selfish aims and operating with perfect logic, would stop their machines as soon as their personal consumption was satisfied and, needless to say, would refrain from opening new factories.

In fact, if capitalist countries have continued to expand their mechanical equipment and allowed the working classes to reap the benefits thereof, they have done so not only because the remuneration of labour has increased, but also because work was done which appeared remunerative for investors, though really it was not so. In the first case, entrepreneurs acted against the spirit of Capitalism, in the second case, they made investments which a clever capitalist would have rejected.

11. — In the twentieth century great progress was made in inventing machines capable of doing men's work. Particularly important and capable of developments that have seemed unbelievable only a few years ago are the machines invented during the second world war. Perhaps the age of plenty dreamt of by the Utopians is about to become a reality (provided the population of the world does not increase excessively). But this plenty will not take the form of manna falling from the sky, which one needs only bend and pick up. Factories will have to be equipped and manpower employed in order to obtain it. At first sight, therefore, it may seem as if nothing has changed as compared with the economy to which we are accustomed. Investments will have to be made as in the past. But here the analogy ends since most of this machinery is practically automatic and the employment of manpower would become negligible once the equipment was installed and, consequently, the sales of the products practically impossible.

Under these circumstances new investment is extremely advantageous for the country as a whole, since a large quantity of products are obtained almost freely (just the cost of installing the machinery) but it is not a profitable business for private persons.

A restricted number of private businesses may be profitable provided they are inserted into a pattern of businesses the majority of which are not remunerative. There are a number of possible solutions: (a) to discontinu preventive investment; (b) to distribute investments over a very long period of time, so that those doing it would lose almost the whole of the outlay; (c) to switch over from investments for profit to investments for a philanthropic nature.

Entrepreneurs might find an incentive to create and operate automatic plants is a fourth solution: (d) if they took pleasure in employing useless labour, as if they were holding court, compensating the court mass with the products of their plant. But this solution has no practical importance, since public opinion in all modern countries condemns all forms of useless, gaudy luxury which has become repulsive even to the very rich. Lastly there is solution (e) when the entrepreneur produces in order to destroy what he has produced, but we need hardly mention that this solution, even if it is rational as a system for equilibriating production and consumption, is a complete failure from the social standpoint. Nevertheless it is interesting to observe that, from 1914 onward, the greatest increase in mechanised plant has always taken place when it was needed for war production, namely, to produce things to be destroyed.

12. — Recently the old theoretical problem has reappeared in the guise of a practical problem in connection with trade between the United States and the rest of the world. The U.S.A. produces practically all that it needs and consequently does not need to import goods. Its position is becoming very similar to that of Simondi's king of England, namely it can no longer trade, but only give away. In order to preserve the appearance of selling its goods, it has to give us dollars with which to buy them.

Thus economic relations between the countries of Europe and the U.S.A. do not merely present a problem of international trade or of balance of payments. In actual fact, they present a typical problem of distribution of income resulting from technical progress and greater exploitation of natural resources. If frontiers and currency difficulties have immediately made evident in the international sphere, it is nonetheless equally true of conditions inside the various countries. However, in our capitalist societies, it is even more difficult, for technical reasons, to distribute goods freely to the citizens without causing a serious upheaval.

The difficulty comes from the fact that it is necessary to organise this free or half-free distribution of income into the process of production and, particularly, in such a way as to prevent the workers who benefit from this free distribution losing interest in their work, while at the same time allowing a margin of profit for the employers. This might possibly be achieved by gradually extending public services so as to distribute free such goods as have a rapidly decreasing cost of production (1). So far, however, neither this nor any of the other possible solutions has been studied sufficiently to ensure success. On the other hand, the favourable effects of free exports on the stability of the domestic market are almost as certain as those of the destruction of surplus goods, which is the oldest and best-known method.

Being brought face to face with the general problem of distributing increased output on an international scale has served to stress its characteristics and should therefore have facilitated its solution. In fact, in the countries that have been receiving help from the U.S.A. in the form of free goods, nobody could possibly maintain that these goods have cost a sacrifice or that it would be a saving not to use them or to refuse to accept them. Consequently, had it not been possible to utilise them otherwise, the beneficiary countries should logically have distributed them free of charge (to desist from citizens, for instance), arranging this distribution in such a way as to avoid any unfavourable effect on production.

Nevertheless, the modest attempts made to plan the distribution of ERP help arouse the suspicions of a number of workers and persons — who have been and are paying attention to what they claimed to be a contrast between the United States' intention to defend private enterprise and the experiments in collectivism on the part of European Governments. In reality, when the U.S.A. decided to grant free help it was merely pressing on to other countries the task of solving a problem which it did not feel able to solve on its own home front and which, could only be solved — as has already been said — by turning from a market economy to a planned economy.

It may seem like a paradox, yet — from this point of view — the collectivist countries may have a rapidly decreasing cost of production (1).
be needed to save private enterprise in a country whose economy is constantly expanding and which, like the U.S.A., wishes at the same time to enjoy the advantages of stability.

13. — The Americans have adopted this solution without realising it. They never intended to create the necessary conditions for replacing men by machines and it would be ridiculous to attribute to them the Machiavellian plan of passing on to Europe the task of saving private enterprise in their country. The most important immediate advantage of this help, which is to offer an outlet for production surpluses, has only been realised by a few people and a number of these, while appreciating the measure in as far as it concerns their own special branch (cotton, wheat, etc.), are opposed to any general policy of this sort. Congress approved the Marshall Plan with arguments that likened it to the subsidies paid by the Roman Empire and the British Government in India to frontier tribes in order to keep them quiet. Further, Congress threatened every year to reduce ERP funds. What count, however, are the facts and not the intentions. Columbus discovered America, but he thought he had only found a new route to Asia.

In the complex societies of our modern world, however, we have to reason differently. Free imports increase supplies on the domestic markets of the beneficiary countries, leading to a fall in prices. A lowering of individual incomes ensues which, unless it is of negligible proportions, bring about a crisis. Classical economists did not attach any importance to crises of this kind and looked ahead to the moment when the market would have adjusted itself to the new conditions. Nevertheless the fact that the victors of the first world war eventually refused German reparations in kind (which differed from a juridical point of view, but in actual fact amounted to very much the same thing as free imports through ERP) should have afforded food for thought. It was indeed an unmistakable sign of the radical change in public opinion — particularly among the leading classes — with regard to crises, even if not likely to be far-reaching or to last long (3).

A crisis can be avoided only if the distribution of the free foods is carried out in such a way as not to alter the relative positions of the different members of society. This has indeed been attempted, but experience has proved it to be extremely difficult in countries where distribution is not concentrated in one hand, as in the case of the peasant family.

15. — It should be noted that national producers not only objected to imports that might lower their prices, but also to those which might stand in the way of their expansion. Thus, for instance, some industrialists tried to veto imports through ERP of machines that they were actually not building because the cost would have been prohibitive for national buyers. This conduct is not irrational as long as there is hope of the domestic market expanding in the future.

In fact to accept a present of goods amounts to expanding the market of the producing industry in the country making the gift (whether this is done at the expense of the taxpayers or not makes no difference). This expansion, in the case of production of the decreasing cost type, leads to a lowering of the cost of production and consequently paves the way for still stronger competition in the future on the part of the nation concerning the goods. For example, the payment of reparations in kind would eventually have built up such a strong German industry that the victorious nations would have been unable to compete with it.

16. — The majority of Europeans would prefer to pay for necessary imports with the proceeds of their visible and invisible exports. "We want to work", they say: "We don't want charity; All that we ask is to be allowed to sell on foreign markets." The trouble is that there are no European goods that the U.S.A. cannot produce equally well. And, as we have already stated, an enormous country like the U.S.A. is able to practise dumping on such a scale as to exclude all other countries from international markets. Consequently when we ask the Americans to lower their customs barriers so as to give us the possibility of selling some of our goods, or not to increase their merchant marine to the point of depriving us also of the invisible assets represented by freight, we are indeed asking them to leave part of their working capacity idle as a favour to us. We should be doing the same thing if we asked the U.S.A. — as it would be logical for us to do — not to compete too bitterly with us in foreign markets so that we may still be able to earn the foreign currency with which to pay for the goods we receive from these countries.

But that is not all. Once we have accepted the principle of using exports to prevent unemployment and avoid crises, the U.S.A. may find it more advantageous to supply the other countries free of charge, rather than to give up markets to them. Were the U.S.A. to give up some markets, it would in fact have to help its national industries which would be working at reduced efficiency, subsidise its farmers to reduce their crops and so on — all measures which are dangerous since they get people into habit of not working.

17. — It is certainly no easy matter to overcome these difficulties; yet it is essential to do so if American help is to yield the benefits we all hope for.

18. — If Europe were to continue to get supplies from other countries to the same extent as prior to the war, American help would need to be permanent — in view of the difficulty (see paragraphs 57) of increasing its exports sufficiently to make up for the lack of the
income from investments which had to be liquidated to pay for the war.

We must not forget that whereas, before 1914, the flow of supplies was steady, since it depended on mutually advantageous commercial transactions and was considered a duty by public opinion, it has now become a political problem. And since the help available is not sufficient to satisfy the needs of all the countries of the world, Europe will always be haunted by the fear that this help will be diverted to China, if we may say, or to South America.

Nor must we forget another fact of fundamental importance: the U.S.A. might suspend this free help altogether and obtain the same advantages by working to produce more armaments. In the years between his advent to power and 1939 Hitler proved that this was an easy and unluring way of absorbing labour.

19. — For all these reasons it is necessary to consider whether Europe can keep up its present standard of living even without American help and, without that increase in its exports which it hopes to achieve by the time American help comes to an end. Obviously an essential condition is for Europe to increase production for the domestic consumer.

The objection usually made is that our natural resources are few. The same thing might have been said of the U.S.A. when its territory was only inhabited by the Indians. In Europe, the resources we know of are in a position to exploit are few; but we must bear in mind that technical progress may increase them. For instance, when it became impossible to get nitrate from Chile and natural rubber from Malaya, industry discovered processes for fixing atmospheric nitrogen and producing synthetic rubber from raw materials available locally. At present we are going through a phase of exceptionally rapid technical development; this alone should allow us to consider with optimism the possibility of increasing European production by drawing on our natural resources.

Another very frequent objection is that, unfortunately, we are poor, very poor; that we cannot increase production because we lack capital, and that we cannot build up capital because we have insufficient savings.

This is not accurate. What we cannot build up is monetary savings, which cannot be formed if monetary income and incomes are not sufficiently high; the latter, in turn, will remain low as long as sales are limited by the low level of consumption. But our society always save more than ever in times of economic depression. When they refrain from consumption to such an extent as to reduce also investments in capital goods (since they can no longer be considered remunerative), saving is accomplished directly in the guise of a saving of labour. Orientals have always realised this. They know that the prize gained by refrain from consumption is rest and, for them, this prize is sufficient.

In Europe, however, work has gradually become the object of a true cult, although people continue to preach that to refrain from consumption would be advantageous both economically and spiritually. Two incompatible ideas: on the one hand, that it is meritorious to produce and, on the other, that it is meritorious not to consume are the basis on which European sentiment is founded. It is difficult to make Europeans understand that the waste of a labour to plant vineyards or build motor factories unless it has been decided to increase the consumption of wine or cars.

So far Europeans have been able to avoid this conclusion by imagining that they will be able to export what they do not intend to consume. But now that exports offer only a very limited outlet, this has become a form of escapism.

20. — Another important fact is that the ideas are shared by the working classes who, if they considered their own interests and acted rationally, would aim to increase their consumption and make sure that only what they like to consume is being produced. Instead they find it quite natural, on the one hand, to work at producing goods for the exclusive use of the rich while, on the other, they exert pressure on public opinion and on the State to discourage the consumption of these goods.

Obviously this hinders the expansion of production and makes economic readjustment in Europe even more difficult.

Returning to the example of motor cars, let us suppose that we not only manufacture cheap cars bought mainly by the working classes but that we manufacture this type alone. Exports being closed, the granting of better wages would result in an expansion of the domestic motor market and, in this way, the surplus production would sooner or later be reabsorbed. If, on the other hand, we only produced Alfa Romeo, Botta Fraschini and Rolls Royces, it would not only be difficult to expand the domestic market but the increase in cost ensuing from the higher wages might cause it to collapse completely, since the incomes of our well-to-do classes are limited and naturally nothing is done to increase them; and the contrary everything is done to restrict them. It is for this reason that the State has decided to subsidise factories manufacturing luxury cars so that they might work uselessly; as a result there has been a fall in the country’s real income.

Thus, incidentally, we have touched on another fundamental point: the difference in mentality leads to one and the same measure having opposite effects in different countries.

VI

21. — After the first world war, Europe suffered from economic depressions, but there were also periods of recovery; we may hope therefore that after this second world war there will not be only depressions. Unfortunately, however — and this is symptomatic — the period of recovery lasting from 1935 to 1939 was closely connected with preparations for the second world war which, for some years, administered oxygen to the productive organisation. Nor is it possible to forget that, ever since the beginning of the twentieth century, we have always lagged behind the vanguard countries.

After all that has been said, we feel that present difficulties should appear sufficiently clear. Europe is faced by a world situation which is completely different from that on which it founded its fortune. In order to safeguard the relative comfort to which it is accustomed, it would need to rebuild its economy on new bases: a very difficult matter, not only because the structure of its output and consumption is rigid, but partially because, regarding many fundamental problems, Europeans have ideas which are completely the opposite of those they should have in order to change the aforesaid structure in such a way as to increase real income.

This is the gloomy side of the picture. However, a certain confidence could be justified: technical progress has not been extinguished in the world, on the contrary it is flourishing more than ever, and other countries from which we are only separated by distances that are small in modern times are constantly showing us how this progress can be utilised.

So far equilibrium — a very poor equilibrium, it is true — has been re-established by an exterior force, by a Deus ex machina; the U.S.A. and its help. Yet after all, if a radical change in European ideas were to occur, would not be this one of those miracles to which old playwrights had recourse to extricate their characters from impossible situations?